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STATE FOR NEA/MAG; STATE PLEASE PASS USTR PAUL BURKHEAD;
COMMERCE FOR NATE MASON; ENERGY FOR GINA ERICKSON

E.O. 12958: DECL: 9/30/2019

TAGS: PREL ECON EPET EMIN ENRG LY

SUBJECT: PETROCANADA FORCED TO CUT PRODUCTION BY FIFTY-PERCENT

REF: TRIPOLI 770

CLASSIFIED BY: Gene Cretz, Ambassador, U.S. Embassy Tripoli,
U.S. Department of State.

REASON: 1.4 (b), (d)

¶1. (S/NF) Summary: A day after reportedly "settling" its dispute with Canada (ref), the Libyan Government issued an order September 30 forcing PetroCanada and its operator, Libya's Hrouj company, to cut production by fifty percent. The move may be a "cheap" way for the Libyans to punish PetroCanada for Canada's snub against Muammar al-Qadhafi while stopping short of nationalizing it, as previously threatened. Diplomats from nations with significant foreign investment appeared unsettled by the surprise move, which could hurt Libya's own economic interests. End Summary.

¶2. (S/NF) Joe Smargiassi (strictly protect), Commercial Manager (Finance and Economics), for PetroCanada told Econoff September 30 that PetroCanada and its local operator, Hrouj, were told to cut production by fifty percent, no reason given. Neither the National Oil Company nor Hrouj representatives knew the background for the decision, according to Smargiassi, who intimated that the order had come from the highest levels, i.e. Muammar al-Qadhafi himself.

¶3. (S/NF) Smargiassi explained that from a technical standpoint, cutting production by such a large amount would be very difficult and, in fact, that his engineers did not even know how to do that, at least not quickly. Shutting down production lines would take time, Smargiassi said, and teams were working it on it as he spoke. He noted that cutting production by that amount could also be very damaging, particularly to the reservoir. Beyond that, it would be very difficult technically to return to previous production levels if the decision were reversed.

¶4. (S/NF) Libya's surprise move came less than 24 hours after Canadian Ambassador to Libya Sandra McArdle told the Ambassador that Libyan Foreign Minister Musa Kusa had "settled the issue." It is unclear what happened in the interim. Diplomats from nations with significant investments in Libya - notably the UK and Italy - appeared unsettled by today's news.

¶4. (S/NF) Comment: This move appears to be purely by whim and for political impact, with little thought given to Libya's own economic interests. PetroCanada works in tandem with its Libyan operator, Hrouj, and the majority share-holder, Libya's NOC, both of which will experience a loss in revenue due to the decreased production. The timing is interesting too, since Suncor (which purchased PetroCanada earlier this summer) was reportedly already strongly considering divesting its

international assets, including those in Libya and Syria. This latest development will likely only increase the likelihood that PetroCanada will leave Libya. End comment.

CRETZ